post

St. James Capital, L.L.C.

To: Board of Directors;
Michigan State Housing Development Authority

From: Mark Wiedelman;
St. James Capital, LLC

Re: Comments on Proposed QAP and MSHDA Loan Programs

Date: Wednesday, October 24, 2007

Good Morning,

My name is Mark Wiedelman. I am President and Managing Member of St. James Capital LLC, a Michigan based HUD Multifamily Lender. St. James was formed approximately seven years ago with a business plan of providing HUD Insured Multifamily loans to the Michigan real estate development industry with a significant focus on affordable housing. Since its' formation St. James has funded over $350 million of financings with over $250 million being affordable housing, almost all of which has been in Michigan. Our projects have included new construction, acquisition-rehab, senior-housing, family-housing, loans to both for-profits and non-profit borrowers, with locations in both core urban and rural areas. These were all funded utilizing one of the HUD Mortgage Insurance Loan programs.

Thank-you for the opportunity to speak. I did provide verbal and written comments on the portion of the proposed QAP that was available at the time of the public hearing held in Lansing on September 13. I will not repeat those comments today as they have been posted on the MSHDA website. While those comments are still relevant, and I do hope that you as Directors take the time to read them and all of the other posts, I would have had some much different things to say if the entire QAP had been available for review prior to the Lansing public hearing. Significant portions of the QAP, including the very important Scoring Summary, were not available for review until last week – after all three of the public hearings were held.

I will address two issues this morning:

I. The just released Scoring Summary clearly steers developers towards the use of MSHDA direct lending programs by granting points for the use of these programs. As proposed, Paragraph B(2) (Project Financing – Federal, State, or Local Funding), a copy of which is attached hereto, gives from 10 – 20 points to projects which use MSHDA and certain types of other specialty loan programs. Projects that utilize other market rate loan programs, including the HUD insured programs that St. James has used to fund over $250 million of successful

33 Bloomfield Hills Parkway • Suite 125 • Bloomfield Hills, MI 48304
(248) 290-2200 • Fax (248) 290-2222
www.sjcapllc.net

affordable projects, will receive zero points. The language in paragraph 2 is clear – "Loan guarantees do not qualify for points." HUD Mortgage Insurance is considered a loan guarantee. While this language exists in the current QAP, albeit with a maximum of 10 points vs. the now proposed 20 points, the language does not have nearly as much impact in the existing QAP. With the proposed QAP going to a "those with the most points get the credits" policy, as opposed to the current minimum point threshold / lottery policy, developers will do what they need to do to maximize their application points. Whether they want to or not, they will need to pursue MSHDA direct financing as they cannot give up this 10 or 20 points. Those points could easily be the difference between receiving a credit award or not. Several of St. James developer clients, with whom we have done numerous 9% LIHTC loan transactions, have already told us that if this Scoring Summary is approved, they will not be able to pursue their favored loan program, in many cases the HUD Mortgage Insurance programs, for their projects. They will feel it necessary to use the MSHDA direct loan program to maximize the points in their applications.

This frankly is not right. The scoring summary should not favor any particular loan program. Developers and sponsors should have the freedom and flexibility to choose the loan program they want for their project.

-When asked at the Lansing hearing why MSHDA was requiring multiple bids from LIHTC equity providers – the answer was "to promote competition." This competition should also be available and encouraged on the debt side of the equation as well as the equity.

-At the annual Mortgage Bankers Association ("MBA") HUD MAP Lenders conference held a few weeks back in Washington D.C., John Garvin, the HUD Deputy Assistant Secretary for Multifamily Housing said that he would consider a proposal from the MBA to require State housing finance agencies to certify that they are not tying the allocation of tax credits or other approvals to the financing of the first mortgage being done through the housing finance agency. With this Scoring Summary, I do not see how MSHDA could sign such a certification.

-MSHDA as a public body should not establish policy that penalizes the development community for not using MSHDA financing.

-When I made my public remarks at the Lansing hearing, I stated that the proposed QAP would make underwriting 9% LIHTC loan transactions very difficult and would likely force me to seek business outside of Michigan to maintain my loan volume to keep my employees busy. The proposed Scoring Summary will likely put St. James totally out of the 9% LIHTC loan business in Michigan – forcing either an aggressive push into new States or severe cutbacks.

II. Of the $250 million of affordable loan transactions funded by St. James, approximately $85 million were completed using the MSHDA Pass-Through Tax Exempt Bond program, where we used the HUD Mortgage Insurance programs to credit enhance tax exempt bonds allocated to a project by MSHDA. This program provided developers in this State a tax exempt bond financing tool that was an alternative to the MSHDA direct loan tax exempt programs, and in fact, many of the projects we completed were transactions that, for a variety of reasons, MSHDA initially turned down.

The Pass-Through program has not been available for approximately a year. St. James alone has lost over $25 million of project financings, deals that could have been completed this year – creating additional affordable housing and acting as a stimulus to our economy, due to the unavailability of this program.

When the initial MSHDA Loan Program changes were introduced in the early summer, there were several proposed changes to the Pass-Through program. At a hearing held in Okemos I and many others spoke to these changes, not all of which we were thrilled about, but I and others expressed a willingness and desire to meet with MSHDA to work out acceptable terms. At the end of my remarks I was told publicly after offering to work with MSHDA that I "was on." I and the industry expected committees to be formed to discuss changes to the Pass-Through and other issues – but this never happened.

When the revised MSHDA Loan Program changes were published in mid-September, the Pass-Through program was not even mentioned. We can only assume that the intent is to kill the program, eliminating the only tax exempt bond funding alternative to Michigan's developers other than the MSHDA direct loan programs.

In summary, the proposed QAP effectively eliminates St. James and other Lenders from the Michigan 9% LIHTC loan business. The assumed termination of the Pass-Through program eliminates St. James and other Lenders from participating in Michigan's 4% LIHTC loan business – in essence putting St. James Capital and others out of the affordable lending business in this State. I have been active in the affordable housing business in this State since 1990, and have enjoyed an excellent relationship with MSHDA and its' staff. Yes we were and are competitors, but in a healthy way. Competition and alternatives are effective. I have never in this 17-year period felt any sort of adversarial relationship with MSHDA – until now. I don't like it and don't understand it.

If the true mission of MSHDA is to promote the creation of quality affordable housing in the State of Michigan, debt and equity financing alternatives should be available. The effective elimination of competition is not good for the State's affordable housing industry and is not good for the State's economy at large. I urge the Board and the Senior MSHDA Staff to revisit these topics before approving either the QAP or the MSHDA Loan Program changes.

PROPOSED QAP - 10.22.07

Selection Criteria		Possible Points	Self Score	Awarded
2. Federal, State, or Local Funding Projects utilizing financing or contributions from federal, state, or local sources (exclusive of Fannie Mae and Freddie Mac) where the credit is needed to make a project feasible <u>and</u> to serve very low income families (e.g., HOME, CDBG, etc.) may receive from 5 to 20 points. Evidence of the financing (including amount, terms, and interest rate), dated within 30 days of the application due date, must be submitted with the application. To obtain points for CIP or AHP financing, a commitment letter from the FHLB must be submitted. Points will be awarded only for long-term permanent financing. **Loan guarantees do not qualify for points.** (Refer to Section VI(A)(2) on page 14 of Primary Application)		30	____	____

Funding Categories	Federal / State Historic / Brownfield Tax Credits	CIP	MSHDA, HOME, RHS, AHP, HUD (including HOPE VI), CDBG
Projects utilizing federal, state or local permanent financing for **10 - 40% of total development costs**	**5 Points**	**5 Points**	**10 Points**
Projects utilizing federal, state, or local permanent financing for **more than 40% of total development costs**	**5 Points**	**5 Points**	**20 Points**

Amount of total development cost: $		
Type of Financing	Amount of Financing	% of TDC
1.	$	%
2.	$	%
3.	$	%
4.	$	%